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INFLUENCE OF PERCEIVED ENVIRONMENTAL TURBULENCE ON MARKET ORIENTATION OF SERVICE FIRMS IN TANZANIA

Diana Philemon Mwiru¹

ABSTRACT

The article examines the influences of perceived environmental turbulence on market orientation of service firms in Tanzania. A conceptual framework linking perceived environmental turbulence and market orientation was developed and tested using a sample of 178 service firms. The sample comprised hotels, travel agents and tour operators and insurance agents. Structural Equation Modelling was used to analyse data. Results indicate that the perceived environmental turbulence components, namely, perceived technological turbulence and perceived market turbulence influence positively the market orientation of service firms whereas the perceived competitive intensity influences negatively the market orientation of service firms in Tanzania. The findings contribute to the theory of antecedents and consequences of market orientation developed by Kohli and Jaworski (1990) by adding a new set of factors that influence market orientation of business firms. On the basis of these findings, the paper recommends to service firms for them to be vigilant with changes taking place in the technological environment. They need also to be heedful of changes in customer needs, preferences, composition and tastes and embrace market orientation as a strategic orientation for navigating in highly turbulent environments. The paper also recommends further study to investigate factors that influence managers' perception of competitive intensity.

Key words: *Market Orientation, Strategic Orientation, Perceived Environmental Turbulence*

INTRODUCTION

Market orientation is a strategic orientation that makes the customer central to all company operations. A business is market-oriented when it embraces a culture of commitment to creating superior value that leaves customers satisfied. This orientation gained popularity in the business world following increased empirical evidence that it is an appropriate strategic orientation that could grant firms successful performance. In fact, there is strong evidence in literature that market orientation is a strong source of competitive advantage that can assure a business firm superior performance (Cano, Carrillat, & Jaramillo, 2004; Dubhlela, 2013; Ellis, 2006; Grinstein, 2008; Gray & Hooley, 2002; Harris, 2001; Hult & Ketchen, 2001; Jiménez-Jiménez & Cegarra-Navarro, 2007; Kirca, Jayachandran, & Bearden, 2005; Krasnikov & Jayachandran, 2008; Saini & Mokolobate, 2011; Shoham, Rose, & Kropp, 2005; Ovwigho, 2014), and customer satisfaction (Kennedy, Goolsby, & Arnould, 2003; Slater & Narver, 1994b).

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A number of studies suggest a positive market orientation influence on various performance measures. Such orientation is associated with new product project performance (Pattikawa, Verwaal & Commandeur, 2006), new product performance (Henard & Szymanski, 2001 [Not referenced]; Im and Workman, 2004), and a firm's competitiveness (Vazquez, Santos, & Alvarez, 2001). Some scholars argue that market orientation is vital to firms operating in all types of environments (Kohli & Jaworski, 1993; Narver & Slater, 1994a).

Following the established influence of market orientation on firms' performance, a number of studies have been conducted to establish factors that foster or impede the development of market orientation as a strategic orientation which can help a firm to achieve superior performance in the market. The factors established to have influence on market orientation include organisational factors, for example, top management on market orientation, attitude towards risk-taking, interdepartmental conflict and connectedness and organisational systems which include centralisation, formalisation, departmentalisation and reward system (Kohli & Jaworski, 1993). Other studies have investigated the influence of organisational culture on strategy implementation (Isaboke, 2015) and the influence of organisational culture on market orientation (Philemon, 2003).

The literature reviewed indicates that over-concentration on organisational-related factors are antecedents to market orientation. These factors are within a firm's internal environment. However, little is known about the influence of environmental turbulence on market orientation. Environmental turbulence includes the unpredictable, frequent and abrupt changes taking place in a given business environment. The changes could happen in technology, competition, customers, economic conditions, political and legal environment, and social cultural environment.

The study upon which this paper is based focused on firm's perception of three environmental turbulence components: perceived technological turbulence, perceived market turbulence, and perceived competitive intensity. Environmental turbulence is external to the firm and could influence all business firms in the same magnitude; therefore, it serves as a control variable. On the other hand, perceived environmental turbulence is not objective as people perceive things and respond to them differently based on their perception. This article, therefore, examines the influences of perceived environmental turbulence on market orientation as strategic orientation for service firms in Tanzania. Specifically, the study sought to:

- a) Assess the influence of perceived technological turbulence on market orientation of service firms in Tanzania;
- b) Analyse the influence of perceived market turbulence on market orientation of service firms in Tanzania; and
- c) Examine the influence of perceived competitive intensity on market orientation of service firms in Tanzania.

This article contributes to the body of knowledge of theory of antecedents to market orientation. The study findings contribute to the theory of antecedent to market orientation as they assert and provide empirical evidence for perceived environmental turbulence as a new set of antecedents to market orientation of service firms. Moreover, it offers a model relating to perceived environmental turbulence on market orientation. In addressing its three specific objectives, the study investigated the influence of perceived technological turbulence, perceived market turbulence and perceived competitive intensity on market orientation of service firms in Tanzania. The study deployed a conceptual framework associating selected perceived environmental turbulence variables with the market orientation of service firms.

Specifically, the study established that perceived technological turbulence, perceived market turbulence and perceived competitive intensity do influence market orientation of service firms.

MARKET ORIENTATION

Different authors have defined market orientation differently. Kohli and Jaworski (1990) define it as the organisation-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments and organisation-wide responsiveness. Such market orientation comprises intelligence generation, dissemination and responsiveness. Slater and Narver (1994, a, b) define market orientation as the organisational culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and, thus, superior performance to the business. Hunt and Morgan (1995) define market orientation as a systematic gathering of information on customers and competitors, both current and potential; systematic analysis of information for the purpose of developing marketing knowledge; and systematic use of such knowledge to guide strategy recognition, understanding, creation, selection, implementation and modification. In this study, market orientation refers to an organisation-wide learning culture anchored in the generation of information on the markets, sharing of information among units in an organisation and designing and tailoring the response to create superior value for the buyers. This article treats market orientation as a firm's strategic orientation aimed to enhance its competitiveness and superior performance.

Perceived Environmental Turbulence and Market Orientation

The current study used Kohli and Jaworski's (1993) conceptualisation of market orientation. It considered market orientation to comprise intelligence generation, intelligence dissemination and responsiveness. On the other hand, the study considered perceived environmental turbulence to comprise perceived market turbulence, perceived technological turbulence and perceived competitive intensity. The study worked on the proposition that perceived environmental turbulence influences market orientation of service firms. In this regard, the study tested the following 'null' and 'alternative' hypotheses:

Null hypothesis: There is no relationship between Perceived Environmental Turbulence and Market Orientation of service firms.

Alternative hypothesis: There is a positive relationship between Perceived Environmental Turbulence and Market Orientation of service firms.

Perceived Technological Turbulence (Perc.TT) and Market Orientation

Technology constitutes a process of transforming inputs into output in addition to the delivery of output to the end-users (Kohli & Jaworski, 1993). In this paper, technological turbulence refers to frequent and abrupt changes or innovations taking place in the input-output transformation process and delivery of output to the end-users. Generally, a business environment is characterised by changing technology and innovations. Business firms, therefore, operate in an environment of briskly changing technology. There are mixed feelings on the nature of relationship between changes in technology and market orientation of business firms. Some authors contend that technological turbulence is one the environmental variables influencing market orientation of the firm whereas dismiss this notion. The existing literature

argue that many generic product innovations do not evolve from consumer research but rather from R&D personnel (Bennett & Cooper, 1981; Houston, 1986; Kaldor, 1971; Kohli & Jaworski, 1993; Kwaku Appiah-Adu, 1997; Tauber, 1974). On the other hand, Knight (1992) argues that innovation by business firms should be market-driven. This suggests that the perception of technological turbulence is related to market orientation. The study, therefore, hypothesises:

H1a: The higher the perceived technological turbulence, the higher the intelligence generation in the organisation.

H1b: The higher the perceived technological turbulence, the higher the intelligence dissemination in the organization.

H1c: The higher the perceived technological turbulence, the higher the responsiveness of the organization

Perceived Market Turbulence (Perc.MT) and Market Orientation

Market turbulence is another variable in the environmental turbulence that influences a firm's market orientation. Simona and Gómezb (2014), Kyung-A and Kim (2013), and Kotler (1972) have argued that in an economy characterised by rapid changes in customer wants, profit may come from producing what customers want and provide satisfaction in the process. Hence, customer orientation is a logical basis for profit planning in the consumer sovereign economy. This implies that in a stable environment where types of customers and preferences do not change frequently over time, market orientation is not as important to business performance as in a marketplace where the composition of customers, their needs and their preferences change. Thus, it is hypothesised:

H2a: The higher the perceived market turbulence the higher the intelligence generation of the organization.

H2b: The higher the perceived market turbulence the higher the intelligence dissemination in the organization.

H2c: The higher the perceived market turbulence the higher the responsiveness of the organization.

Perceived Competitive Intensity (Perc.CI) and Market Orientation

Competition implies two or more organisations vying for limited resources (Punnett & Ricks, 1997). Savitt (1986) defines competition as rivalry between and among firms and customers for the custom of consumers and suppliers, respectively. Hunt and Morgan (1995) define competition as a constant struggle among firms for a competitive edge in resources that will yield a marketplace position of a competitive advantage, thereby achieving superior financial performance. From the existing literature, we assert that the perception of competition is likely to affect market orientation of business firms. In a competitive environment, customers face several alternatives capable of satisfying their needs (Kwaku Appiah-Adu, 1997). In such an environment, a firm should be both a mass customiser and a one-to-one marketer. Likewise, it is important for the firm to understand factors that customers consider to judge the value of a product (Smiths *et al.*, 1992). Generally, in such a sensitive environment, firms should be more market-oriented because a non-market oriented firm is likely to lose its customers to competitors in such an environment, hence making perceived competitive intensity a significant factor in developing and fostering market orientation as a strategic orientation for service firms in Tanzania. Therefore, it is hypothesised:

H3a: The higher the perceived competitive intensity the higher the intelligence generation.

H3b: The higher the perceived competitive intensity the higher the intelligence dissemination.

H3c: The higher the perceived competitive intensity the higher the responsiveness of the firm.

The following model (Figure 1) summarises the hypothesised relationships:

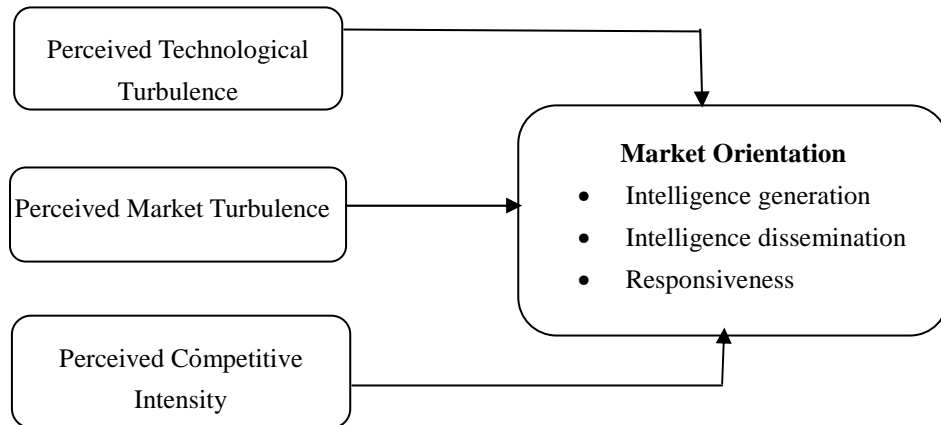


Fig. 1: Perceived Environmental Turbulence and Market Orientation Link Model
Source: Author’s construction

APPROACH ADOPTED IN THE STUDY

The study used a deductive approach as it was guided by existing theories. The study involved a survey of 178 service firms drawn from seven regions in Tanzania. Structural Equation Modelling literature suggests that the sample size should range from 100 to 200 (Hair *et al.*, 1995) as a sample of below 100 is small and a sample bigger than 200 becomes too large for some of the methods of estimation as they tend to become very sensitive in detecting every difference and, thus, making all ‘goodness of fit measures’ become a ‘poor fit’. On the basis of the preceding argument, the study opted for the maximum proposed sample size of 200 to provide room for non-response cases. The sample was drawn from hotels, travel agents, tour operators and travel agents. These were mainly medium and small firms that had been in operation for between a year and over 20 years.

A multistage sampling procedure was used to determine the sample for the study. The first stage involved dividing the country into zones on the basis of their ecological and socio-economic conditions that influence culture and decision-making. This approach enhanced both efficiency and generalisation of the findings. This stage yielded six zones: Coast, Northern, Southern, Central, Lake Zone and the Isles. The second stage involved the selection of regions to be included in the sample. Judgemental sampling was used whereby each zone was represented by at least one region. The regions included in the sample were those with well-established service firms, i.e. Dar es Salaam, Arusha, Kilimanjaro, Mwanza, Mbeya, Morogoro and Unguja (Zanzibar). Quota was used to determine the number of firms to be picked from each service category. The final stage involved random picking of service firms that finally constituted the sample.

Data Analysis and Findings

A structured questionnaire was developed for collecting requisite data. Data analysis involved estimating measurement

variables using the Analysis Moment Structures (AMOS). First, a database was created and data was entered into an SPSS file. Final data cleaning was conducted using frequencies and tables. Thereafter, models were manually generated using simple drawing tools in the AMOS platform. The SPSS data file was attached to AMOS and SEM analysis was performed. The interpretation of results was conducted in stages. The first stage involved testing for reliability and validity of the scales in use. All the scales applied were reliable with Cronbach Alpha above 0.8. Discriminant validity was used to test for the validity of the scales. The results are presented in Table 1. The second stage involved model evaluation whereas the last stage involved inferential analysis which tested the hypothesized relationships.

Table 1: Discriminant Validity

	MO	MT	TT	CI
MO	.9236			
MT	.2662	.6256		
TT	.2539	.5809	.7298	
CI	.0572	.580	.1471	.8464

The results were checked for any offending estimates which included negative errors of variance, standardised coefficient exceeding or close to 1.0 and very large standard errors associated with any estimate (Hair *et al.*, 1995). All error variance for the measurement model were positive, with standardised coefficient ranging between .015 and .6 with standard errors of below .9 which proved that the results had no offending estimates. The observed results also indicated no offending limits. The study used three measures of goodness of fit, namely goodness of fit measures, incremental fit measures and parsimonious fit measures to evaluate the overall model fit. Tables 6-8 present the results.

Table 2: Absolute Measures of Goodness of Fit

Model	RMSEA	ECVI
Default	.067	10.226
Saturated	-	11.176
Independence	.379	141.787

The RMSEA value was 0.067 which fit in well with the accepted range of 0.05-0.08 (Browne & Cudeck, 1989). This suggested that the model augured well with the data.

Table 3: Incremental Measures of Fit

Model	RFI	NFI	IFI	TLI	CFI
Default	.932	.939	.972	.968	.972
Saturated	1.000	-	1.000	-	-
Independence	.000	.000	.000	.000	.000

Results in Table 3 indicate that all incremental measures for the measurement model exceed the recommended level of .90, hence supporting the acceptance of the proposed structural model.

Table 4: Measures of Parsimonious

Model	PNFI	PCFI	AGFI	Normed chi square
Default	.840	.869	-	1.801
Saturated	.000	.000	-	.000
Independence	.000	.000	-	.000

All values in Table 4 are within the stipulated range of 0 to 1 (James *et al.*, 1982) and closer to upper limit. The model has a Normed Chi-Square of 1.8 which is within the accepted range of 1 to 2 (James *et al.*, 1982). Overall, the results for model evaluation provided sufficient support to accept the model as a representation of the hypothesised constructs.

Data analysis was conducted at two stages. First, descriptive data analysis was performed to get characteristics of the firms involved and data generated. Frequencies and percentages were mainly used. The results have been presented in the tables under sub-section 4.1. The second stage involved inferential analysis aimed to test the hypotheses stated in this study.

Descriptive analysis

Table 5: Perceived Technological Turbulence

Item	Strongly agree %	Disagree %	Agree %	Strongly agree %
Technological changes provide opportunities in our industry	2.3	5.1	19.7	58.4
It is difficult to forecast technology in the next two years	6.8	11.3	10.1	3.5
Many new product ideas result from technology breakthrough	3.4	5.1	23.7	45.2
Technological development in our industry are rather minor	19.2	12.4	10.7	23.2
Average	5.4	8.5	16	32.6

Results in Table 5 indicate that service firms across the three categories perceive technological turbulence to be high.

Table 6: Perceived Market Turbulence

Item	Strongly agree %	Disagree %	Agree %	Strongly agree %
New customers tend to have new needs	2.8	5.1	22.5	36.5
New customers tend to look for the new products all the time	0.5	1.1	24.7	60.7
Average %	1.7	3	24.7	48.6

The results in Table 6 indicate that service firms in Tanzania perceive market turbulence to be high. In fact, the perception of the market turbulence was the highest among travel agents and tour operators followed by insurance agents and hoteliers.

Table 7: Perceived Competitive Intensity

Item	Strongly agree %	Disagree %	Agree %	Strongly agree %
Competition is cut-throat in the industry	3.4	5	23	49.4
There are many promotional wars in the industry	1.1	7.3	24.7	47.7
Any move initiated by one competitor others follow	0.5	2.8	19.7	51.1
Price competition is hallmark of our industry	0.5	3.9	25.8	47.2
There are competitive moves every day in our industry	1.7	7.3	2.9	43.8
Our competitors are relatively strong	2.3	6.2	18.6	53.1
Average	1.6	5.4	22.3	48.7

Results in Table 7 indicate that service firms surveyed perceive competitive intensity to be high. The highest perception is observed in travel agents and tour operators followed by insurance agents and hotels.

Overall, the results indicate that service firms in Tanzania perceive environmental turbulence to be high. With such perception of environmental turbulence, service firms in Tanzania are likely to develop market orientation as their strategic orientation for them to survive in such a changing environment.

Testing the hypotheses

Structural Equation Modelling with the help of AMOS was used to test the hypothesised relationships between perceived environmental turbulence and market orientation. The first step of the inferential analysis involved testing for the existence of the relationship between Perc.ET and MO. The results are presented in Table 8.

Table 8: Multiple Correlations between Perceived Environmental Turbulence and Market Orientation

MO components	Squared R
Intelligence generation	.723
Intelligence dissemination	.974
Responsiveness	.900

The results in Table 8 indicate a strong relationship between perceived environmental turbulence and market orientation. More specifically, perceived environmental turbulence accounts for 72.4% of variation in intelligence generation, 97.4% of variation in intelligence dissemination and 90% in responsiveness. All the results are significant at $\alpha < .05$. Therefore, the central null hypothesis to the effect that there is no relationship between perceived environmental turbulence and market orientation is rejected and the alternative hypothesis is supported.

Perceived technological turbulence and market orientation

It was hypothesised that, perceived technological turbulence relates to the three components of market orientation. The findings of the analysis are presented in Table 9:

Table 9: Perceived Technological Turbulence and Market Orientation

MO component	Estimate	S.E	C.R	Reg. weights
Intelligence generation	.447	.053	8.453	.730
Intelligence dissemination	.834	.059	14.13	.833
Responsiveness	.604	.054	11.255	.835

The findings in Table 9 indicate a strong relationship between perceived technological turbulence and market orientation of service firms in Tanzania. This implies that, as firms perceive technological turbulence to be high, they tend to adopt market orientation as a strategic option. The results are in line with Davis *et al.* (1991) and Liu (1995) who observed that technology can act as a barrier to market orientation.

Perceived market turbulence and market orientation

In this study, it was hypothesised that perceived market turbulence influences market orientation of service firms in Tanzania. The results of the analysis are presented in Table 10:

Table 10: Perceived Market Turbulence and Market Orientation

MO component	Estimate	S. E	C.R	Reg. weights
Intelligence generation	.197	.041	4.860	.322
Intelligence dissemination	.365	.047	7.840	.365
Responsiveness	.284	.040	7.034	.393

The results in Table 10 show CR values of greater than 2 across the three components of market orientation. This implies the presence of a positive relationship between perceived market turbulence and market orientation. The findings imply that when service firms perceive the market to be turbulent they opt for market orientation as a strategic option for them to survive in such a business environment. These findings are in line with Kohli and Jaworski's (1990) field interview findings which indicated that firms operating in an environment with fixed customers and stable preferences were likely to be less market-oriented.

Perceived competitive intensity and market orientation

In this study, it was hypothesised that, perceived competitive intensity influences the development of market orientation of service firms in Tanzania. The results of the analysis are presented in Table 11.

Table 11: Perceived Competitive Intensity and Market Orientation

MO component	Estimate	S. E	C.R	Reg. weights
Intelligence generation	.180	.039	-4.511	-.294
Intelligence dissemination	-.383	.048	-8.030	-.382
Responsiveness	-.159	.037	-4.350	-.220

The results in Table 11 show that perceived competitive intensity is negatively related to the three components of market orientation. The results are significant at $\alpha < .05$, which implies that the more the service firms perceive environment to be highly competitive, the less they consider market orientation to be an appropriate business strategic option. Although these results attest to the existence of a relationship between perceived competitive intensity and market orientation, they do not support the direction of the hypothesised relationship. The results can partly be

explained by the nature of service firms included in the study whereby product differentiation within service category and class is difficult (Lovelock & Wirtz, 2011).

Level of significance of the components

Further analysis was performed to determine the level of significance of each perceived environmental turbulence component in explaining the variation in the market orientation components. To achieve this aim, standardised regression weights and CR values in the measurement model were compared. The results are presented in tables 12, 13 and 14.

Table 12: Perceived Environmental Turbulence and Intelligence Generation

Perceived Environmental turbulence component	Estimate	S. E	C.R	Regression weights
Perceived Market turbulence	.197	.041	4.860	.322
Perceived Technological turbulence	.447	.053	8.453	.730
Perceived competitive intensity	-.180	.039	-4.571	-.0290

The results in Table 12 suggest that, of the three-perceived environmental turbulence considered in this study, perceived technological turbulence is more influential on intelligence generation of market orientation than others followed by perceived market turbulence.

Table 13: Perceived Environmental Turbulence and Intelligence Dissemination

Perceived Environmental turbulence component	Estimate	S. E	C.R	Regression weights
Perceived Market turbulence	.365	.047	7.840	.365
Perceived Technological turbulence	.834	.059	14.130	.833
Perceived competitive intensity	-.383	.048	-8.030	-.382

The standardised regression weights and CR values for perceived technological turbulence in Table 13 suggest that, of the three components of perceived environmental turbulence, perceived technological turbulence is more important in explaining variations in intelligence dissemination in service firms than the other two components of market orientation.

Table 14: Perceived Environmental Turbulence and Responsiveness

Perceived environmental turbulence component	Estimate	S. E	C.R	Regression weights
Perceived Market turbulence	.284	.040	7.034	.393
Perceived Technological turbulence	.604	.054	11.255	.835
Perceived competitive intensity	-.159	.037	-4.350	-.220

Results in Table 14 indicate that perceived technological turbulence is more important in explaining firm's responsiveness to changes taking place in a business environment. Overall, the results indicate that perceived technological turbulence is the most important factor in explaining variations in the three components of market orientation of service firms.

CONCLUSION AND RECOMMENDATIONS

The study examined the relationship between perceived environmental turbulence and the market orientation of service firms in Tanzania. These study findings infer that perceived environmental turbulence influences market orientation of service firms. Specifically, perceived technological turbulence and perceived market turbulence do influence positively the market orientation of service firms whereas perceived competitive intensity influences negatively the market orientation of service firms in Tanzania.

On the basis of these findings, the study recommends that Tanzania's service firms should develop market orientation as a strategic orientation for navigating in highly turbulent environments. In business environments, technologies facilitate innovation and increase competition by providing alternative ways of addressing customer needs. In turn, innovation brings about new products into the market, hence providing customers with a wide choice for satisfying their needs, which in turn increases customer sophistication. As technological changes continue to occur in the business environment even as customer sophistication and customer composition change, service firms in Tanzania are likely to be market-oriented.

The implication of the findings to top managers of service firms is that proper perception of the environment is critical to the firm's development of market orientation. Managers should, therefore, analyse carefully the environment for them to suggest finally the appropriate strategic orientation for the firm to survive and succeed in such an environment. Managers should also avoid factors likely to bias their perception of the business environment.

The study findings also indicate that of the three perceived environment turbulence variables, perceived technological turbulence is the most significant variable in explaining the market orientation of the service firms followed by perceived market turbulence. This implies that service firms need to be vigilant and be on the lookout for changes taking place in the technological environment. They also need to be heedful of changes in customers' needs, preferences, composition and tastes. From the existing theory, firms operating in the service sector, particularly hotels, tour operators, travel and insurance agents have very little to do in terms of product and price differentiation, which are sources of a competitive advantage (Porter, 1990, 1985). This partly explains the negative influence of perceived competitive intensity on market orientation of service firms in Tanzania observed in this study. Nevertheless, service firms can gain a competitive advantage through service excellence (Harris, 2001), which is measured by the service bundle that a customer receives, the time it takes for the customer to receive the service and convenience (which is a function of time and overall service experience by the customer). All these aspects can be achieved through the use of improved technology. The study findings also imply that future research could further be conducted to investigate the factors that influence the managers' perception of competitive intensity and the choice of strategic orientation for firms operating in a highly competitive environment.

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